



UNIVERSITY OF SOUTH CAROLINA

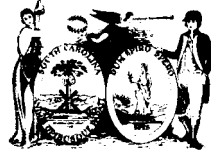
Financial Statements and Schedules

June 30, 2002

(With Independent Auditors' Report Thereon)



State of South Carolina



Office of the State Auditor

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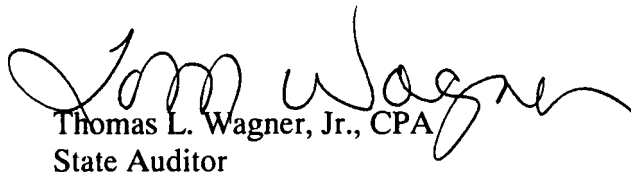
November 12, 2002

The Honorable Jim Hodges, Governor
and
Members of the Board of Trustees
University of South Carolina
Columbia, South Carolina

This report on the financial statements of the University of South Carolina for the fiscal year ended June 30, 2002, was issued by KPMG, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb



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Independent Auditors' Report

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying statement of net assets of the University of South Carolina (the University), a component unit of the State of South Carolina, and its discretely presented component unit as of June 30, 2002, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These basic financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the University of South Carolina and its discretely presented component unit as of June 30, 2002, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 14 to the financial statements, effective July 1, 2001, the University adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 6, 2002 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



KPMG LLP, KPMG LP, a U.S. limited liability partnership, is
a member of KPMG International, a Swiss association.



The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the University's basic financial statements. The introductory and statistical sections and the supplementary information included in the accompanying schedules of non-capital appropriations and statement of activities are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them. The supplementary information included in the accompanying schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

September 6, 2002

UNIVERSITY OF SOUTH CAROLINA

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

The University of South Carolina is pleased to present its financial statements for fiscal year 2002. The emphasis of discussions about these statements will be on current year data. While maintaining its financial health is crucial to the long-term viability of the University, the primary mission of a public institution of higher education is to provide education, research, and public service.

A requirement of the Management's Discussion and Analysis is that it should discuss the current-year results in comparison with prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. However, because this is the first year of the new accounting format and there is limited comparative data, discussion will be confined to current year data.

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board in Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. These financial statements differ significantly, in both the form and the accounting principles utilized, from prior financial statements presented. The financial statements presented in prior years focused on the accountability of funds, while these statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and, the Statement of Cash Flows. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year of the primary institution and does not include the component unit.

Summary of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the University of South Carolina. The Statement of Net Assets presents end-of-year data concerning Assets (current and non-current), Liabilities (current and non-current), and Net Assets (Assets minus Liabilities). It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the

service is provided and expenses and liabilities are recognized when others provide the service to us, regardless of when cash is exchanged.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the institution's equity in property, plant, and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is normally available for only investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

Condensed Summary of Net Assets for FY 2002:

| | |
|---|-----------------------|
| Assets | |
| Current assets | \$ 178,786,454 |
| Capital assets, net | 606,624,345 |
| Other assets | <u>49,419,451</u> |
| Total assets | <u>834,830,250</u> |
| Liabilities | |
| Current liabilities | 94,147,469 |
| Noncurrent liabilities | <u>162,777,132</u> |
| Total liabilities | <u>256,924,601</u> |
| Net assets | |
| Invested in capital assets, net of related debt | 451,532,092 |
| Restricted - nonexpendable | 11,196,692 |
| Restricted - expendable | 17,643,245 |
| Unrestricted | <u>97,533,620</u> |
| Total net assets | <u>\$ 577,905,649</u> |

Summary of Revenues, Expenses and Changes in Net Assets

Total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues Expenses, and Changes in Net Assets. The purpose of the Statement of Revenues, Expenses and Changes in Net Assets is to present the revenues received and expenses paid by the institution, both operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the institution.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Non-operating revenues are revenues received for which goods and services are not provided. Appropriations are nonoperating because they are provided by the related government without the government directly receiving commensurate goods and services for these revenues.

Condensed Summary of Revenues, Expenses and Changes in Net Assets for FY 2002:

Operating Revenues:

| | |
|--|--------------------|
| Student tuition and fees | \$ 168,537,527 |
| Less scholarship allowance | (30,076,026) |
| Federal grants and contracts | 97,727,944 |
| State grants and contracts | 33,779,838 |
| Local grants and contracts | 1,860,961 |
| Nongovernmental grants and contracts | 19,871,609 |
| Sales and services of educational and other activities | 16,121,748 |
| Sales and services of auxiliary enterprises | 63,340,826 |
| Less scholarship allowance | (2,212,304) |
| Interest collected on student loans | 166,165 |
| Other fees | 4,479,897 |
| Other operating revenues | 1,475,786 |
| Total operating revenues | <u>375,073,971</u> |

Operating Expenses:

| | |
|------------------------------------|----------------------|
| Compensation and employee benefits | 406,533,140 |
| Services and supplies | 124,110,053 |
| Utilities | 15,582,204 |
| Scholarships and fellowships | 33,342,986 |
| Depreciation expense | 27,490,806 |
| Total operating expenses | <u>607,059,189</u> |
| Operating loss | <u>(231,985,218)</u> |

| | |
|--|-----------------------|
| Non-operating revenues (expenses) | <u>254,795,434</u> |
| Income (loss) before other revenues, expenses, gains or losses | 22,810,216 |
| Other revenues, expenses, gains or losses | <u>20,079,404</u> |
| Increase in net assets | <u>42,889,620</u> |
| Net assets at beginning of year - restated | <u>535,016,029</u> |
| Net assets at end of year | <u>\$ 577,905,649</u> |

The Statement of Revenues, Expenses and Changes in Net Assets reflect a positive increase in net assets for the current fiscal year.

Summary of Cash Flows

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part presents the operating cash flows and shows the net cash used by the operating activities of the institution. The second section presents cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section presents cash flows from capital and related financing activities. This section reflects the cash used for the acquisition and construction of capital and related items. The fourth section presents the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets.

Capital Asset and Debt Administration

The University has several significant capital construction projects in progress. A new multi-purpose entertainment arena is under construction and due to open in November 2002. In addition, a 170,000 square foot fitness and wellness center is scheduled for completion within the next twelve months and in June 2002 the University acquired a 375,000 square foot office complex. These projects were partially funded with new debt issues in fiscal year 2002 by \$21,000,000 athletic facilities revenue bonds, \$7,000,000 athletic facilities bond anticipation notes, \$34,000,000 state institution bonds and \$8,400,000 state institution bond anticipation notes.

Economic Outlook

The University is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations.

The University's overall financial position remains strong. Even with state appropriation reductions during the fiscal year, the University managed an increase in net assets. The University was aware of projected state appropriation decreases at the time fees were established and anticipates that the new fiscal year will be similar. The University will maintain a constant review over resources to maintain its ability to react to internal and external issues.

UNIVERSITY OF SOUTH CAROLINA

Statement of Net Assets

June 30, 2002

| | University | Trust | Total |
|---|-----------------------|----------------------|-----------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 92,226,511 | \$ 5,524,709 | \$ 97,751,220 |
| Investments | - | 4,867,412 | 4,867,412 |
| Accounts receivable, net | 37,365,799 | 792,629 | 38,158,428 |
| Pledges receivable | 2,420,000 | - | 2,420,000 |
| Student loans receivable, current | 18,873 | - | 18,873 |
| Patients accounts receivable, net | - | 2,639,800 | 2,639,800 |
| Capital improvement bonds proceeds receivable | 495,876 | - | 495,876 |
| Inventories | 2,312,466 | - | 2,312,466 |
| Prepaid items | 2,023,128 | - | 2,023,128 |
| Restricted cash and cash equivalents | 40,010,265 | - | 40,010,265 |
| Funds due from others | 1,913,536 | - | 1,913,536 |
| Total current assets | <u>178,786,454</u> | <u>13,824,550</u> | <u>192,611,004</u> |
| Noncurrent assets: | | | |
| Investments | 4,283,911 | - | 4,283,911 |
| Notes receivable | 19,943,910 | - | 19,943,910 |
| Restricted cash and cash equivalents | 3,805,687 | - | 3,805,687 |
| Restricted - federal student loans receivable | 19,185,147 | - | 19,185,147 |
| Capital assets, net of accumulated depreciation | 606,624,345 | 14,422,832 | 621,047,177 |
| Other assets | 2,200,796 | - | 2,200,796 |
| Total noncurrent assets | <u>656,043,796</u> | <u>14,422,832</u> | <u>670,466,628</u> |
| Total assets | <u>834,830,250</u> | <u>28,247,382</u> | <u>863,077,632</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | 16,224,951 | 3,182,751 | 19,407,702 |
| Retainage payable - current portion | 3,719,126 | - | 3,719,126 |
| Accrued interest payable | 1,953,058 | - | 1,953,058 |
| Accrued payroll and related liabilities | 6,387,329 | 80,463 | 6,467,792 |
| Accrued compensated absences - current portion | 9,163,081 | 651,302 | 9,814,383 |
| Short - term debt | 24,800,000 | - | 24,800,000 |
| Long-term liabilities - current portion | 5,718,412 | 513,258 | 6,231,670 |
| Deferred revenues | 25,117,270 | - | 25,117,270 |
| Deposits | 604,537 | - | 604,537 |
| Other liabilities | 217,791 | - | 217,791 |
| Funds held for others | 241,914 | - | 241,914 |
| Total current liabilities | <u>94,147,469</u> | <u>4,427,774</u> | <u>98,575,243</u> |
| Noncurrent liabilities: | | | |
| Retainage payable | 49,509 | - | 49,509 |
| Accrued compensated absences | 9,333,247 | - | 9,333,247 |
| Federal loan funds | 18,628,955 | - | 18,628,955 |
| Long-term liabilities | 134,765,421 | 9,854,234 | 144,619,655 |
| Other liabilities | - | 215,350 | 215,350 |
| Total noncurrent liabilities | <u>162,777,132</u> | <u>10,069,584</u> | <u>172,846,716</u> |
| Total liabilities | <u>256,924,601</u> | <u>14,497,358</u> | <u>271,421,959</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 451,532,092 | 4,055,340 | 455,587,432 |
| Restricted for: | | | |
| Nonexpendable | 11,196,692 | - | 11,196,692 |
| Expendable | | | |
| Scholarships, research, instruction, and other | 4,667,156 | - | 4,667,156 |
| Loans | 2,963,443 | - | 2,963,443 |
| Capital projects | 7,277,055 | - | 7,277,055 |
| Debt service | 2,735,591 | - | 2,735,591 |
| Unrestricted | 97,533,620 | 9,694,684 | 107,228,304 |
| Total net assets | <u>\$ 577,905,649</u> | <u>\$ 13,750,024</u> | <u>\$ 591,655,673</u> |

See accompanying notes to financial statements.

UNIVERSITY OF SOUTH CAROLINA

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2002

| | University | Trust | Total |
|---|-----------------------|----------------------|-----------------------|
| REVENUES | | | |
| Operating Revenues: | | | |
| Student tuition and fees (\$10,367,658 pledged as security for bonds) | \$ 168,537,527 | \$ - | \$ 168,537,527 |
| Less scholarship allowance | (30,076,026) | - | (30,076,026) |
| Patient services, net | - | 21,529,690 | 21,529,690 |
| Federal grants and contracts | 97,727,944 | - | 97,727,944 |
| State grants and contracts | 33,779,838 | - | 33,779,838 |
| Local grants and contracts | 1,860,961 | - | 1,860,961 |
| Nongovernmental grants and contracts | 19,871,609 | - | 19,871,609 |
| Sales and services of educational and other activities | 16,121,748 | - | 16,121,748 |
| Sales and services of auxiliary enterprises (\$5,274,695 pledged as security for bonds) | 63,340,826 | - | 63,340,826 |
| Less scholarship allowance | (2,212,304) | - | (2,212,304) |
| Interest collected on student loans | 166,165 | - | 166,165 |
| Other fees (\$1,370,055 pledged as security for bonds) | 4,479,897 | - | 4,479,897 |
| Other operating revenues | 1,475,786 | 12,013,938 | 13,489,724 |
| Total operating revenues | <u>375,073,971</u> | <u>33,543,628</u> | <u>408,617,599</u> |
| EXPENSES | | | |
| Operating Expenses: | | | |
| Compensation and employee benefits | 406,533,140 | 22,330,775 | 428,863,915 |
| Services and supplies | 124,110,053 | 11,434,140 | 135,544,193 |
| Utilities | 15,582,204 | - | 15,582,204 |
| Scholarships and fellowships | 33,342,986 | - | 33,342,986 |
| Depreciation expense | 27,490,806 | 870,926 | 28,361,732 |
| Total operating expenses | <u>607,059,189</u> | <u>34,635,841</u> | <u>641,695,030</u> |
| Operating Income (loss) | <u>(231,985,218)</u> | <u>(1,092,213)</u> | <u>(233,077,431)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| State appropriations | 227,305,106 | - | 227,305,106 |
| Gifts | 26,617,077 | - | 26,617,077 |
| Investment income | 5,722,623 | (216,725) | 5,505,898 |
| Endowment income | 1,388,161 | - | 1,388,161 |
| Gain (loss) on disposal of capital assets | 67,091 | (39,584) | 27,507 |
| Interest on capital asset related debt | (6,324,624) | (392,271) | (6,716,895) |
| Other nonoperating revenues | 20,000 | - | 20,000 |
| Net nonoperating revenues (expenses) | <u>254,795,434</u> | <u>(648,580)</u> | <u>254,146,854</u> |
| Income (loss) before other revenue, expenses, gains or losses | <u>22,810,216</u> | <u>(1,740,793)</u> | <u>21,069,423</u> |
| State capital appropriations | 8,846,349 | - | 8,846,349 |
| Capital grants and gifts | 11,266,725 | - | 11,266,725 |
| Capital contributions to/from component unit | 85,628 | (85,628) | - |
| Additions to permanent endowments | 702,490 | - | 702,490 |
| Transfers to/from other state funds | (821,788) | - | (821,788) |
| Increase (decrease) in net assets | <u>42,889,620</u> | <u>(1,826,421)</u> | <u>41,063,199</u> |
| NET ASSETS | | | |
| Net assets - beginning of year, as restated | 535,016,029 | 15,576,445 | 550,592,474 |
| Net assets - end of year | <u>\$ 577,905,649</u> | <u>\$ 13,750,024</u> | <u>\$ 591,655,673</u> |

See accompanying notes to financial statements.

UNIVERSITY OF SOUTH CAROLINA

Statement of Cash Flows

Year Ended June 30, 2002

| | University | Trust | Total |
|---|-------------------------|---------------------|-------------------------|
| Cash flows from operating activities | | | |
| Student tuition and fees | \$ 137,171,297 | \$ - | \$ 137,171,297 |
| Patient services, net | - | 21,721,850 | 21,721,850 |
| Research grants and contracts | 154,226,223 | - | 154,226,223 |
| Sales and services of educational and other activities | 16,011,140 | - | 16,011,140 |
| Sales and services of auxiliary enterprises | 64,396,556 | - | 64,396,556 |
| Net loans to students | (894,005) | - | (894,005) |
| Interest collected on student loans | 166,165 | - | 166,165 |
| Payments to employees for services | (406,025,475) | (22,323,189) | (428,348,664) |
| Payments to suppliers | (143,512,626) | (11,450,461) | (154,963,087) |
| Payments to students for scholarships and fellowships | (33,342,986) | - | (33,342,986) |
| Other receipts | 5,702,426 | 12,082,725 | 17,785,151 |
| Net cash provided (used) by operating activities | <u>(206,101,285)</u> | <u>30,925</u> | <u>(206,070,360)</u> |
| Cash flows from non-capital financing activities | | | |
| State appropriations | 227,305,106 | - | 227,305,106 |
| Gifts for other than capital purposes | 24,637,855 | - | 24,637,855 |
| Additions to permanent endowments | 702,490 | - | 702,490 |
| Other nonoperating revenues (expenses) | 20,000 | (85,628) | (65,628) |
| Transfers to/from other state agencies | (821,788) | - | (821,788) |
| Funds held for others | (3,088,901) | - | (3,088,901) |
| Federal loan liability | 606,132 | - | 606,132 |
| Net cash provided (used) by noncapital financing activities | <u>249,360,894</u> | <u>(85,628)</u> | <u>249,275,266</u> |
| Cash flows from capital and related financing activities | | | |
| Proceeds from capital debt | 80,894,514 | - | 80,894,514 |
| State capital appropriations | 8,846,349 | - | 8,846,349 |
| Capital grants and gifts | 10,917,545 | - | 10,917,545 |
| Purchase and construction of capital assets | (97,416,030) | (4,204,955) | (101,620,985) |
| Principal paid on capital asset related debt | (16,098,758) | (686,811) | (16,785,569) |
| Interest paid on capital asset related debt | (5,782,155) | (392,271) | (6,174,426) |
| New cash provided (used) by capital and related financing activities | <u>(18,638,535)</u> | <u>(5,284,037)</u> | <u>(23,922,572)</u> |
| Cash flows from investing activities | | | |
| Purchase of investments | - | (1,521,439) | (1,521,439) |
| Proceeds from the sale of investments | 29,176 | 2,518,283 | 2,547,459 |
| Investment income | 4,216,475 | 335,090 | 4,551,565 |
| Endowment income | 1,258,330 | - | 1,258,330 |
| Net cash provided (used) by investing activities | <u>5,503,981</u> | <u>1,331,934</u> | <u>6,835,915</u> |
| Net increase in cash and cash equivalents | 30,125,055 | (4,006,806) | 26,118,249 |
| Cash and cash equivalents, beginning of year | <u>105,917,408</u> | <u>9,531,515</u> | <u>115,448,923</u> |
| Cash and cash equivalents, end of year | <u>\$ 136,042,463</u> | <u>\$ 5,524,709</u> | <u>\$ 141,567,172</u> |
| Reconciliation of net operating revenues (expenses) to net cash provided by (used in) operating activities: | | | |
| Operating expenses over revenues | \$ (231,985,218) | \$ (1,092,213) | \$ (233,077,431) |
| Adjustments to reconcile operating loss to net cash used by operating activities | | | |
| Depreciation expense | 27,490,806 | 870,926 | 28,361,732 |
| Changes in current assets and liabilities | | | |
| Accounts receivables, net | 944,337 | 68,787 | 1,013,124 |
| Patients accounts receivables, net | - | 192,160 | 192,160 |
| Student loans receivable | (894,005) | - | (894,005) |
| Capital improvement bonds proceeds receivable - non-capital | 121,797 | - | 121,797 |
| Inventories | (126,558) | - | (126,558) |
| Prepaid items | (211,227) | 46,139 | (165,088) |
| Accounts payable | (3,476,114) | 722,540 | (2,753,574) |
| Retainage payable - non-capital | (6,467) | - | (6,467) |
| Accrued payroll and related liabilities | (693,114) | 52,060 | (641,054) |
| Accrued compensated absences | 1,200,779 | (44,474) | 1,156,305 |
| Deferred revenues | 1,629,199 | - | 1,629,199 |
| Deposits | (51,806) | - | (51,806) |
| Other liabilities | (43,694) | (785,000) | (828,694) |
| Net cash provided by (used in) operating activities | <u>\$ (206,101,285)</u> | <u>\$ 30,925</u> | <u>\$ (206,070,360)</u> |
| Non-cash transactions: | | | |
| Gifts of capital assets reducing proceeds of capital grants and gifts | \$ 4,163,304 | \$ - | \$ 4,163,304 |
| Change in value of investments recognized in endowment income | \$ 64,774 | \$ (551,815) | \$ (487,041) |

See accompanying notes to financial statements.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

Note 1 Summary Of Significant Accounting Policies

Nature of Operations

The University of South Carolina is a State-supported, coeducational institution of higher education. The University's primary purpose is to provide undergraduate, graduate, and professional education to students and conduct research and other activities that advance fundamental knowledge.

Reporting Entity

The financial reporting entity, as defined by GASB Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements include the University and its component unit.

The University is composed of the Columbia campus, including the School of Medicine, and seven regional campuses. The University is part of the primary government of the State of South Carolina because it is financially accountable to and fiscally dependent on the State. Its Board of Trustees is appointed by the Governor and/or the General Assembly of the State.

The University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (collectively "the Trust") is a component unit of the University. The Trust is organized and operates exclusively for the benefit of the University's School of Medicine to augment and aid education, research, and service in the field of health sciences. The Trust is considered a component unit because the University has appointment authority of the Trust's board of directors. The Trust is considered governmental in nature and, therefore, is subject to the governmental accounting model. December 31 is the year-end date for the Trust and complete financial statements of the Trust can be obtained at the University of South Carolina School of Medicine Educational Trust, Post Office Box 413, Columbia, South Carolina, 29202.

Financial Statements

The financial statement presentation for the University has been changed to meet the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35,

Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities. The financial statement presentation provides a comprehensive, entity-wide perspective of the University's net assets, revenues, expenses and changes in net assets and cash flows that replaces the fund-group perspective previously required.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly are presented as scholarship and fellowship expenses. All significant intra-agency transactions have been eliminated.

The University has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office cash management pool are considered cash equivalents. Restricted cash and cash equivalents are comprised of bond proceeds, debt service funds and externally restricted funds.

Investments

The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

investment income in the statement of revenues, expenses and changes in net assets.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories

Inventories are carried at the lower of cost or market as determined by various methods.

Noncurrent Cash and Investments

Noncurrent cash and investments primarily consist of permanently endowed funds and federal student loan funds. These funds are externally restricted and are classified as noncurrent assets in the statement of net assets.

Prepaid Items

Expenditures for services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of subscriptions, library periodicals, maintenance and service agreements, and travel reservations and deposits.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements or more that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The University capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore asset values in capital assets include such interest costs. Capitalized interest for fiscal year 2002 was \$611,608.

Deferred Revenues and Deposits

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Deposits represent dormitory room deposits, security deposits for possible room damage and key loss, and other miscellaneous deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Compensated Absences

Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net assets.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose.

The University policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

Donor- Restricted Assets

The University policy for the treatment of net appreciation (depreciation) on investments of donor-restricted endowments increases or decreases endowment principal. These amounts are not authorized for expenditure. The University applies the total-return policy for the expenditure of investment or endowment income.

Income Taxes

The General University, as a political subdivision of the State of South Carolina, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. The Trust and Practice Plan are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the University's principal ongoing operations.

These revenues include:

- (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students;
- (2) patient charges received in exchange for providing health-related services;
- (3) receipts for scholarships where the provider has identified the qualified student recipients;
- (4) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the University;
- (5) grants and contracts that are essentially the same as contracts for services that finance programs the University would not otherwise undertake.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students'

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate of return, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued.

Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. The University has no rebatable arbitrage liability at June 30, 2002.

Changes in Accounting and Restatement of Beginning Net Asset Balances

As a result of the adoption of GASB Statement No. 34, the University was also required to make certain changes in accounting principles. These changes are discussed in detail in Note 14.

Note 2—Cash And Cash Equivalents, Other Deposits, And Investments

Most deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain deposits and investments are deposited with or managed by financial institutions and brokers as restricted by donors. Deposits and investments of the University's component unit are not under the State Treasurer's control and are deposited or invested by financial institutions and brokers.

The following schedule reconciles deposits and investments within the footnotes to the statement of net assets amounts:

Statement of Net Assets

| | |
|--|----------------|
| Cash and cash equivalents (current) | \$ 97,751,220 |
| Restricted cash and cash equivalents (current) | 40,010,265 |
| Restricted cash and cash equivalents (non-current) | 3,805,687 |
| Investments (current) | 4,867,412 |
| Investments (non-current) | 4,283,911 |
| | <hr/> |
| | \$ 150,718,495 |

Footnotes

| | |
|-------------------------------------|----------------|
| Cash on Hand | \$ 97,933 |
| Deposits held by State Treasurer | 135,836,877 |
| Other Deposits | 107,654 |
| Component Unit Deposits | 5,524,709 |
| Investments Held by State Treasurer | 2,015,135 |
| Other Investments | 2,268,775 |
| Component Unit Investments | 4,867,412 |
| | <hr/> |
| | \$ 150,718,495 |

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 2002, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name. With respect to the investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and the credit risk of the State Treasurer's investments is

disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Other Deposits

The University's other deposits at year-end were entirely covered by federal depository insurance for deposits with banks. Of the total of these deposits the University's loan funds include \$25,000 restricted cash for a loan participation deposit.

Investments Held by State Treasurer and Other Investments

The University's investments include common stock held by the State Treasurer for the University. The

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

University has other investments which are managed by financial institutions or brokers as specified by the donors. Purchased investments are valued at fair value. Investments received from donors are valued at the lesser of their fair value on the date promised or received or fair value as of fiscal year-end.

The net change in unrealized appreciation of investments for the current fiscal year increased in the amount of \$64,774.

The University's investments are categorized as to credit risk as either (1) insured or registered, or securities held by the University or its agent in the University's name, (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the University's name, or (3) uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the University's name.

A summary of investments at June 30, 2002 by category of credit risk follows:

| | Category 1 | Category 3 | Fair Value |
|--------------------------------------|---------------------|---------------------|----------------------------|
| Common Stock Held by State Treasurer | \$ 2,013,835 | \$ — | \$ 2,013,835 |
| Common Stocks Held by Others | — | 416,565 | 416,565 |
| U. S. Government Securities | — | 131,852 | 131,852 |
| Corporate Bonds | — | 51,539 | 51,539 |
| Pooled Investments* | — | 1,668,820 | 1,668,820 |
| Total Categorized Investments | \$ <u>2,013,835</u> | \$ <u>2,268,776</u> | 4,282,611 |
| Miscellaneous | | | |
| Other - Held by State Treasurer | | | <u>1,300</u> |
| Total Investments | | | \$ <u>4,283,911</u> |

*Consist of marketable debt and equity securities and U.S. and State government debt instruments.

Component Unit Deposits

The Trust's cash and cash equivalents balance includes cash on deposit with financial institutions of \$3,672,950 and deposits in money market funds of \$1,851,759. Of these amounts, approximately \$4,697,000 exceeded the limits of federal depository insurance (FDIC). Of the amount exceeding federal depository insurance limits, \$2,999,000 was on deposit with a bank which has agreed to support balances to their full extent. The bank's management reviews the total of the Trust's balances on a daily basis and pledges marketable debt securities held in the bank's own portfolio in amounts approximating the uninsured excess. All other balances exceeding federal depository insurance limits are not subject to such an agreement.

Component Unit Investments

Investments of the component unit (the Trust) consist of long-term certificates of deposit, equity securities, and mutual funds. Investments have been classified as available-for-sale and are carried at fair value. The investments classified as available-for-sale are not actively traded.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

The Trust has the following investments:

| | <u>Cost</u> | <u>Fair Value</u> |
|---|--------------------|-----------------------|
| Marketable Equity Securities | | |
| Common Stock | \$4,234,184 | \$3,851,916 |
| Mutual Funds | 112,496 | 112,496 |
| Certificates of Deposits maturing after three months | <u>900,000</u> | <u>903,000</u> |
| | <u>\$5,246,680</u> | <u>\$4,867,412</u> |

The net change in unrealized appreciation of investments for the current year decreased in the amount of \$551,815.

Of the total cash and cash equivalents for the Trust, \$141,353 held in escrow by the Series 2000 Bond trustee for the purpose of making required annual principal payments on September 1, 2002.

Management does not believe that significant credit risk is associated with its banking relationships. The difference in reported book balance and the bank balance of deposits is comprised of in-transit reconciliation items at fiscal year end.

Common stocks, mutual funds, and U.S. Treasury obligations are held by an agent of the Trust in the Trust's name and, therefore, are in investment credit risk category 1.

Note 3 – Receivables

Accounts Receivable

Accounts receivable consisted of the following at June 30, 2002:

| | |
|--|----------------------|
| Students and sponsors | \$ 6,043,225 |
| Auxiliary enterprises | 2,458,698 |
| Federal grants and contracts | 14,509,854 |
| State grants and contracts | 1,363,288 |
| Local grants and contracts | 41,226 |
| Non-governmental grants and contracts | 3,269,514 |
| Private gifts | 4,225,700 |
| Accrued interest | 5,904,529 |
| Component Unit | <u>792,629</u> |
| | 38,608,663 |
| Less allowance for doubtful accounts | <u>450,235</u> |
| Accounts receivable, net | <u>\$ 38,158,428</u> |

Allowances for losses are based upon actual losses experienced in prior years and evaluations of the current accounts.

Pledges Receivable

Pledges receivable consist of the Athletic Gamecock Club membership drive and are due by the end of the calendar year. At June 30, 2002, \$2,420,000 are outstanding net of a \$100,000 allowance.

Patients Accounts Receivable

The Clinical Faculty, through its affiliation with a hospital, provides medical services to indigent patients not covered under insurance or governmental programs. Charges to patients participating in Medicare and Medicaid programs and substantially all charges to patients having medical insurance are adjusted by third-party payers. A percentage of privately paying patients do not meet their obligations.

Management adjusts patient charges to their estimated net realizable value through a valuation allowance. Adjustments related to indigent care and third-party payers are recorded as reductions of patient service revenue. Adjustments related to bad debts of privately paying patients are recorded as a provision for uncollectible accounts expense.

At December 31, 2001, patients accounts receivable, net consisted of the following:

| | |
|--------------------------------------|---------------------|
| Adjusted patient charges | \$ 3,209,000 |
| Less estimated uncollectible charges | <u>569,200</u> |
| Patient accounts receivable, net | <u>\$ 2,639,800</u> |

The allowance for uncollectible charges applied to reduce adjusted patient charges to net realizable value is determined by each unit based on its collection experience for similar receivables.

Student Loans Receivable

Student loans made through Federal Loan Programs comprise substantially all of the student loans receivable. The loan programs provide various repayment options: students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise. As the University determines that loans are uncollectible, the loans are written off and assigned to the US Department of Education.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

Capital Improvement Bonds Receivable

The capital improvement bonds receivable represents outstanding bond fund proceeds that have been expended but not yet drawn.

The State has authorized capital improvement bonds to fund improvements and expansion of state facilities. The University is not obligated to repay these funds to the State. Authorized funds can be requested once the State authorities have given approval to begin specific projects and project expenditures have been incurred. The University has \$43,055,102 of outstanding state capital improvement bond authorization not yet expended.

Notes Receivable

As authorized by South Carolina Code of Laws, the University may lend certain of its endowment and auxiliary funds to the University of South Carolina Educational Foundation, a related party. Under the terms of the agreement, the University will earn interest on the principal and cumulative interest balances at a monthly rate as determined by the State Treasurer. The principal balance of this note receivable and the related cumulative accrued interest receivable at June 30, 2002, were \$19,943,910 and \$4,779,363, respectively.

Note 4 – Capital Assets

| | June 30, 2001 | Increases | Decreases | June 30, 2002 |
|---|-----------------------|----------------------|---------------------|-----------------------|
| Capital assets not being depreciated: | | | | |
| Land and improvements | \$ 39,499,423 | \$ 11,547,219 | \$ 621,307 | \$ 50,425,335 |
| Construction in-progress | 40,997,199 | 76,308,749 | 4,887,946 | 112,418,002 |
| Works of art and historical treasures | 16,005,029 | | | 16,005,029 |
| Total capital assets not being depreciated | 96,501,651 | 87,855,968 | 5,509,253 | 178,848,366 |
| Other capital assets: | | | | |
| Land improvements | | | | |
| Buildings and improvements | 630,640,494 | 11,972,892 | 23,763 | 642,589,623 |
| Machinery, equipment, and other | 102,396,566 | 12,310,258 | 7,216,697 | 107,490,127 |
| Vehicles | 6,427,244 | 1,995,743 | 389,430 | 8,033,557 |
| Intangibles | 4,420,218 | | | 4,420,218 |
| Component Unit buildings and improvements | 10,439,496 | 4,548,477 | | 14,987,973 |
| Component Unit medical and office equipment | 5,555,181 | 770,717 | 150,046 | 6,175,852 |
| Total other capital assets at historical cost | 759,879,199 | 31,598,087 | 7,779,936 | 783,697,350 |
| Less accumulated depreciation for: | | | | |
| Land improvements | | | | |
| Buildings and improvements | 237,897,587 | 17,850,687 | | 255,748,274 |
| Machinery, equipment, and other | 69,191,459 | 8,385,194 | 6,167,052 | 71,409,601 |
| Vehicles | 4,778,268 | 702,398 | 389,430 | 5,091,236 |
| Intangibles | 1,955,908 | 552,527 | | 2,508,435 |
| Component Unit buildings and improvements | 1,906,538 | 277,833 | | 2,184,371 |
| Component Unit medical and office equipment | 4,089,415 | 577,669 | 110,462 | 4,556,622 |
| Total accumulated depreciation | 319,819,175 | 28,346,308 | 6,666,944 | 341,498,539 |
| Other capital assets, net | 440,060,024 | 3,251,779 | 1,112,992 | 442,198,811 |
| Capital Assets, Net | \$ 536,561,675 | \$ 91,107,747 | \$ 6,622,245 | \$ 621,047,177 |

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

The Gain (Loss) on Disposal of Assets consisted of the following:

| | |
|-------------------------------------|------------------|
| Gains on Disposals | \$ 1,304,826 |
| Losses on Disposals | 1,277,319 |
| Net Gain (Loss) on Disposals | \$ 27,507 |

Note 5—Pension Plans

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

South Carolina Retirement System

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2001, the employer contribution rate became 10.40 percent which included a 2.85 percent surcharge to fund retiree health and

dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2002, 2001 and 2000, were \$16,129,000, \$16,039,000, and \$15,315,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$321,000 in the current fiscal year at the rate of .15 percent of compensation.

Police Officers Retirement System

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2001 the employer contribution rate became 13.15 percent which, as for the SCRS, included the 2.85 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2002, 2001 and 2000 were \$274,000, \$271,000, and \$251,000, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$5,300 and accidental death insurance contributions of \$5,300 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

Optional Retirement Program

Certain State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 2.85 percent from the employer in fiscal year 2002.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$4,683,000 (excluding the surcharge) from the University as employer and \$3,722,000 from its employees as plan members. In accordance with revised State requirements effective for fiscal year 2001, the University did not pay for group-life insurance coverage for these employees. All amounts were remitted directly to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Teacher and Employee Retention Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Component Unit

The Trust provides a defined contribution plan covering all faculty participants in the Practice Plan. The contribution rate is determined by the Trust and is 10 percent of eligible compensation up to statutory limits. After completion of three years of service, benefits are fully vested. Contributions for the years ended December 31, 2001 and 2000 amounted to \$993,000 and \$979,000, respectively and are included as a component of personal services and related expenses.

Note 6—Postemployment And Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for these State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 21,400 State retirees meet these eligibility requirements.

The University recorded compensation and benefit expenses for these insurance benefits for active employees in the amount of \$19,039,000 for the year ended June 30, 2002. As discussed in Note 7, the University paid \$7,932,000 applicable to the 2.85 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental

(cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

Note 7—Contingencies, Litigation, And Project Commitments

The University is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of University management, there are no material claims or lawsuits against the University that are not covered by insurance or whose settlement would materially affect the University's financial position.

The University participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

The University had outstanding commitments under construction contracts of approximately \$53,419,000 at June 30, 2002. The University anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds.

Note 8—Lease Obligations

Future commitments for capital leases and operating leases that have remaining noncancelable terms in excess of one year as of June 30, 2002 were as follows.

Equipment Capital Leases

| Year Ending December 31 | |
|--|-------------------|
| 2002 | \$ 111,481 |
| 2003 | 81,723 |
| 2004 | 16,032 |
| 2005 | 13,332 |
| 2006 | <u>5,316</u> |
| Total minimum lease payments | \$ 227,884 |
| Less interest, executory and other costs | <u>40,392</u> |
| Present value of minimum lease payments | <u>\$ 187,492</u> |

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

Capital leases for various equipment are payable in monthly installments from current resources. All of the capital leases are with third-party vendors and certain capital leases provide for renewal and/or purchase options.

All equipment capital leases are classified as machinery, equipment and other in Note 4. The carrying value of assets held under capital leases totaled \$428,843 as of June 30, 2002. Accumulated depreciation of this equipment totaled \$256,878 at June 30, 2002.

Real Property Operating Leases

| Year Ending June 30 | <u>External Parties</u> | <u>Other State Agencies</u> | <u>Total</u> |
|------------------------------|-----------------------------|-------------------------------------|-------------------|
| 2003 | \$ 412,543 | \$ 14,250 | \$ 426,793 |
| 2004 | 118,447 | 14,250 | 132,697 |
| 2005 | 55,847 | - | 55,847 |
| 2006 | 42,500 | - | 42,500 |
| 2007 | 42,500 | - | 42,500 |
| 2008-2010 | <u>127,500</u> | <u>-</u> | <u>127,500</u> |
| Total minimum lease payments | <u>\$ 799,337</u> | <u>\$ 28,500</u> | <u>\$ 827,837</u> |

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2003-2010. These noncancelable operating leases include agreements between the University and third party vendors as well as other State agencies and related parties. Certain operating leases provide for renewal options for periods from 2003 to 2010 at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. Total real property operating lease payments were \$1,006,598 for fiscal year 2002.

Note 9—Short-Term Debt

Bonds Anticipation Notes (BANS) Payable

Bond anticipation notes payable consisted of the following at June 30, 2002.

| | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Balance June 30, 2002</u> |
|---------------------------|----------------------|----------------------|----------------------------------|
| State Institution BANS | | | |
| Series 2002 | 2.50% | 11/01/02 | \$ 8,400,000 |
| Revenue BANS | | | |
| Series 2002 | 2.25% | 11/20/02 | 9,400,000 |
| Series 2002A | 2.50% | 03/19/03 | <u>7,000,000</u> |
| Total Revenue BANS | | | <u>16,400,000</u> |
| Total BANS Payable | | | \$ <u>24,800,000</u> |

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

The University utilizes bond anticipation notes (BANS) to provide interim financing for capital improvements. The University typically converts outstanding BANS to long-term financing, as appropriate, within the normal course of business. BANS are included in short-term liabilities and are due within one year. During fiscal year 2002, \$7,000,000 athletic facilities revenues

BANS Series 2002A was issued for new athletic facilities construction, \$9,400,000 athletic facilities revenue BANS Series 2002, was issued to refinance a portion of the remaining balance of athletic facilities revenue BANS Series 2001, and \$8,400,000 state institution BANS was issued for the purchase and renovation of a capital asset.

Short-term debt activity for the year ended June 30, 2002 was as follows:

| | June 30, 2001 | Additions | Reductions | June 30, 2002 |
|------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| State Institution BANS | \$ — | \$ 8,400,000 | \$ — | \$ 8,400,000 |
| Revenue BANS | <u>11,250,000</u> | <u>16,400,000</u> | <u>11,250,000</u> | <u>16,400,000</u> |
| Total Short-Term Debt | \$ <u>11,250,000</u> | \$ <u>24,800,000</u> | \$ <u>11,250,000</u> | \$ <u>24,800,000</u> |

Note 10 – Bonds and Notes Payable

Bonds Payable

Bonds payable consisted of the following at June 30, 2002.

| | <u>Interest Rates</u> | <u>Maturity Dates</u> | <u>Balance June 30, 2002</u> |
|--------------------------------------|-----------------------|-----------------------|----------------------------------|
| State Institution Bonds | | | |
| Series 1993B | 4.65% | 04/01/03 | \$ 1,800,000 |
| Series 1996B | 5.0% to 7.0% | 04/01/16 | 24,345,000 |
| Series 2001B | 4.5% to 5.0% | 07/01/21 | <u>34,000,000</u> |
| Total State Institution Bonds | | | <u>60,145,000</u> |
| Revenue Bonds | | | |
| Series 1995 | 4.75% to 5.0% | 05/01/15 | 5,980,000 |
| Series 1996 | 5.3% to 6.8% | 06/01/26 | 23,175,000 |
| Series 1997 | 5.25% to 5.6% | 06/01/17 | 3,780,000 |
| Series 1999A | 4.0% to 5.0% | 06/01/19 | 4,495,000 |
| Series 2000A | 5.0% to 5.75% | 06/01/30 | 20,595,000 |
| Series 2002 | 4.0% to 5.5% | 05/01/32 | <u>21,000,000</u> |
| Total Revenue Bonds | | | <u>79,025,000</u> |
| Component Unit Revenue Bonds | | | |
| Series 2000 | Variable | 09/01/25 | <u>10,180,000</u> |
| Total Bonds Payable | | | <u><u>149,350,000</u></u> |

State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition revenue is pledged up to the amount of the annual debt requirements for the

payment of principal and interest on state institution bonds. The legal debt margin for state institution bonds is that the maximum amount of annual debt service shall not exceed ninety percent of the sums received

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

from tuition and fees for the preceding fiscal year. Tuition bond fees for the preceding year were \$8,501,379, which results in a legal annual debt service at June 30, 2002 of \$7,651,241. The annual debt service payments for the fiscal year ended June 30, 2002 were \$5,163,768. Tuition revenue pledged in fiscal year 2002 was \$9,771,358 for state institution bonds.

General revenue bonds are payable from and secured by a pledge of net revenues derived by the University from the operation of the facilities constructed with the bond proceeds. General revenue bonds are additionally secured by a pledge of additional funds. Additional funds are all available funds and academic fees of the University which are not (i) otherwise designated or restricted; (ii) funds derived from appropriations; and (iii) tuition funds pledged to the repayment of state institution bonds. Pledged net revenues for general revenue bonds in fiscal year 2002 were \$5,009,613.

Athletic facilities revenue bonds are payable and secured by a pledge of net revenues of the athletic department, gross receipts of a special admission fee to facilities and a special student fee as authorized by the governing board. Pledged revenues for athletic facilities revenue bonds in fiscal year 2002 were \$596,300 special student fees, \$1,370,055 special admission fee, and \$265,082 athletic department net revenues.

The University has secured insurance contracts for revenue bonds which guarantee payment of principal and interest, in the case such required payment has not been made, for a period equal to the final maturity of the bonds. Certain of the bonds payable are callable at the option of the University.

As of June 30, 2002, the University is in compliance with all related bond covenants of its issued debt.

During the current fiscal year, the University issued state institution bonds in the amount of \$34,000,000 for new construction and various renovations and revenue bonds in the amount of \$21,000,000 for new construction of athletic facilities.

The component unit revenue bonds are limited obligations of the University of South Carolina School of Medicine Educational Trust and Clinical Faculty Practice Plan (collectively the "Trust"). The terms of indebtedness provide that bondholders may redeem, or put, the bonds to the remarketing agent on dates that

approximate a monthly basis. The remarketing agent is obligated to remarket the redeemed bonds on a "best efforts" basis. Redeemed bonds are repaid to bondholders from the proceeds of the remarketing effort or, in the event of an inability to remarket the bonds, from a renewing, 13-month letter of credit provided by Wachovia Bank, N.A. ("Wachovia"). In connection with the issuance of the bonds, the University has pledged that for as long as any bonds remain outstanding, the University will not terminate the Practice Plan and will cause it to be operated so that all interest and principal on the bonds will be paid. As additional security to Wachovia, the Trust has granted Wachovia a security interest in substantially all real and personal property of the Trust, in the Trust's rights to medical office building rents, and in its land lease with the University.

The terms of the indenture of Trust (the "Indenture") relating to the issuance of the bonds provide that they bear interest at a variable rate, not to exceed 12%. Interest is paid each September 1 and quarterly thereafter. The interest rate was initially computed weekly. The Indenture provides the Trust with options that include monthly or longer interest computational periods as well as a conversion privilege to fixed interest rate obligations. Administrative procedures associated with the selection of any option include approval by the bondholders. Management expects that in the normal course of business, interest will be computed on a weekly basis. At December 31, 2001, the interest rate on the bonds was 1.60%.

The scheduled redemptions of the component unit revenue bonds are as follows:

| Year ended December 31, | | |
|-------------------------|----|-------------------|
| 2002 | \$ | 420,000 |
| 2003 | | 420,000 |
| 2004 | | 420,000 |
| 2005 | | 420,000 |
| 2006 | | 425,000 |
| 2207-2011 | | 2,125,000 |
| 2012-2016 | | 2,125,000 |
| 2017-2021 | | 2,125,000 |
| 2022-2025 | | 1,700,000 |
| | \$ | <u>10,180,000</u> |

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

The scheduled maturities of the University bonds payable by type are as follows:

| | <u>Principal</u> | | <u>Interest</u> | | <u>Total</u> |
|--------------------------------|----------------------|-----------|-------------------|-----------|-------------------|
| State Institution Bonds | | | | | |
| 2003 | \$ 4,040,000 | \$ | 2,946,768 | \$ | 6,986,768 |
| 2004 | 2,355,000 | | 2,741,886 | | 5,096,886 |
| 2005 | 2,485,000 | | 2,603,311 | | 5,088,311 |
| 2006 | 2,610,000 | | 2,457,249 | | 5,067,249 |
| 2007 | 2,745,000 | | 2,331,499 | | 5,076,499 |
| 2008-2012 | 16,075,000 | | 9,525,119 | | 25,600,119 |
| 2013-2017 | 18,180,000 | | 5,197,934 | | 23,377,934 |
| 2018-2021 | 11,655,000 | | 1,513,070 | | 13,168,070 |
| Total | \$ 60,145,000 | \$ | 29,316,836 | \$ | 89,461,836 |

| | <u>Principal</u> | | <u>Interest</u> | | <u>Total</u> |
|----------------------|----------------------|-----------|-------------------|-----------|--------------------|
| Revenue Bonds | | | | | |
| 2003 | \$ 1,455,000 | \$ | 4,421,374 | \$ | 5,876,374 |
| 2004 | 1,880,000 | | 4,167,603 | | 6,047,603 |
| 2005 | 1,995,000 | | 4,070,185 | | 6,065,185 |
| 2006 | 2,100,000 | | 3,966,604 | | 6,066,604 |
| 2007 | 2,225,000 | | 3,856,535 | | 6,081,535 |
| 2008-2012 | 12,985,000 | | 17,502,196 | | 30,487,196 |
| 2013-2017 | 15,525,000 | | 13,763,650 | | 29,288,650 |
| 2018-2022 | 14,520,000 | | 9,681,209 | | 24,201,209 |
| 2023-2027 | 16,295,000 | | 5,309,863 | | 21,604,863 |
| 2028-2032 | 10,045,000 | | 1,403,850 | | 11,448,850 |
| Total | \$ 79,025,000 | \$ | 68,143,069 | \$ | 147,168,069 |

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

Notes Payable

Notes payable consisted of the following at June 30, 2002:

University note payable to acquire rare literary Collection, dated August, 1994, payable in annual installments of \$60,000, matures January 2005, imputed interest rate of 5.16%. \$ 162,906

University note payable secured by telephone equipment, dated February, 1999, payable in quarterly installments of \$11,804, matures March 2004, interest rate of 3.793%. 79,579

University note payable secured by stadium Scoreboard, dated October, 1999, payable in annual installments of \$75,203, matures November, 2006, interest rate of 5.359%. 322,386

University note payable to acquire rare literary Collection, dated January, 2001, payable in annual installments of \$55,000, beginning in 2003 and \$36,667 in 2004 thru 2010, matures July 2009, imputed interest rate of 4.38%. 260,605

University note payable secured by aircraft, dated July, 2001, payable in monthly installments of \$4,174, matures June 2003, imputed interest rate of 5.64%. 48,586

University note payable secured by aircraft, dated July, 2001, payable in monthly interest Payments of \$6,458, thru June, 2003 and monthly principal payments of \$10,417 plus interest in 2004 thru 2011, matures June 2011, interest rate of 7.75%. 1,000,000

Total Notes Payable \$ 1,874,062

The scheduled maturities of the notes payable are as follows:

| | Principal | Interest | Total |
|--------------|----------------------------|--------------------------|----------------------------|
| 2003 | \$ 246,521 | \$ 118,480 | \$ 365,001 |
| 2004 | 302,199 | 103,143 | 405,342 |
| 2005 | 274,709 | 85,534 | 360,243 |
| 2006 | 222,341 | 68,214 | 290,555 |
| 2007 | 227,267 | 53,600 | 280,867 |
| 2008-2012 | 601,025 | 88,391 | 689,416 |
| Total | <u><u>\$ 1,874,062</u></u> | <u><u>\$ 517,362</u></u> | <u><u>\$ 2,391,424</u></u> |

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

Note 11 – Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2002 was as follows:

| | June 30, 2001 | Additions | Reductions | June 30, 2002 | Due Within One Year |
|---|-----------------------|----------------------|----------------------|-----------------------|------------------------|
| Bonds and Notes Payable and Capital Lease Obligations | | | | | |
| State Institution Bonds | \$ 28,985,000 | \$ 34,000,000 | \$ 2,840,000 | \$ 60,145,000 | \$ 4,040,000 |
| Revenue Bonds | 59,745,000 | 21,000,000 | 1,720,000 | 79,025,000 | 1,455,000 |
| Component Unit Revenue Notes | 10,600,000 | | 420,000 | 10,180,000 | 420,000 |
| Subtotal Bonds Payable | 99,330,000 | 55,000,000 | 4,980,000 | 149,350,000 | 5,915,000 |
| Less: Unamortized discount | 583,339 | | 23,110 | 560,229 | 23,110 |
| Total Bonds Payable | 98,746,661 | 55,000,000 | 4,956,890 | 148,789,771 | 5,891,890 |
| Notes Payable | 1,068,307 | 1,094,513 | 288,758 | 1,874,062 | 246,521 |
| Capital Lease Obligations | 413,738 | 40,564 | 266,810 | 187,492 | 93,259 |
| Total Bonds, Notes and Capital Leases | 100,228,706 | 56,135,077 | 5,512,458 | 150,851,325 | 6,231,670 |
| Other Liabilities | | | | | |
| Accrued Compensated Absences | 17,991,324 | 10,485,100 | 9,328,795 | 19,147,629 | 9,814,383 |
| Total Other Liabilities | 17,991,324 | 10,485,100 | 9,328,795 | 19,147,629 | 9,814,383 |
| Total Long-Term Liabilities | \$ 118,220,030 | \$ 66,620,177 | \$ 14,841,253 | \$ 169,998,954 | \$ 16,046,052 |

Additional information regarding bonds and notes payable is included at Note 10. Additional information regarding Capital lease obligations is included at Note 8.

Note 12 – Related Parties

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program. Financial statements for these entities are audited by independent auditors and retained by them. They include the University of South Carolina Educational Foundation; the University of South Carolina Business Partnership Foundation; the Greater University of South Carolina Alumni Association; the Carolina Piedmont Foundation, Inc.; the University of South Carolina Development Foundation; the Lancaster County Educational Foundation, Inc.; and the South Carolina Research Institute. The activities of these entities are not included in the University's financial statements. However, the University's statements include transactions between the University and these related parties.

In conjunction with its implementation of GASB Statement No. 14, management reviewed its relationships with the entities described in this note. The University excluded these entities from the reporting entity because it is not financially accountable

for them. As an amendment to Statement 14, the GASB has issued GASB Statement 39 providing additional guidance to determine if these entities should be reported as component units in financial statements for periods beginning after June 15, 2003. Management will again review its relationship with these entities in accordance with the new standard at its effective date.

Following is a more detailed discussion of each of these entities and a summary of significant transactions (if any) between these entities and the University for the year ended June 30, 2002.

The University of South Carolina Educational Foundation is an eleemosynary corporation operating for the benefit and support of the University of South Carolina. Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the University. During the year, the University received from the Foundation funds for scholarships, awards and stipends to students, faculty and administrative staff; library collections; reimbursement for computer and personnel services

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

provided by the University; and interest earnings on notes receivable from the Foundation. (See Note 3)

The University of South Carolina Business Partnership Foundation is a nonprofit corporation which, among other purposes, was formed to bring together representatives of business and government to assist them in conducting conferences, seminars, and management programs to further the education, development and effectiveness of management personnel in the State and region. During the year, the University received funds for scholarships, reimbursement of personal service and fringe benefit and other administrative costs from the Foundation.

The Lancaster County Educational Foundation, Inc., is an eleemosynary corporation operating for the benefit and support of the University of South Carolina at Lancaster. Its objectives include the establishment and implementation of long-range fund-raising programs to assist in the expansion and improvement of the educational functions of the University. During the year, the University received from the Foundation funds for scholarships, rent, and reimbursement for computer and personnel services provided by the University.

The Greater University of South Carolina Alumni Association was formed to serve the students after they graduate. The Alumni Association's objectives are providing job placement and counseling, communicating the aspirations and needs of the University, helping graduates keep in touch with one another, and providing programs of continuing education. During the year, the University received funds for scholarships from the Association and provided office and meeting space at no cost to the Association.

The Carolina Piedmont Foundation, Inc., was incorporated under the laws of South Carolina to establish and promote a permanent foundation to accept gifts for charitable, benevolent, cultural, and education purposes for the exclusive use and benefit of the University of South Carolina at Spartanburg. During the year, the University received funds from the Foundation for scholarships and reimbursement for personnel services provided by the University.

The University of South Carolina Development Foundation is a South Carolina eleemosynary corporation which operates exclusively for the benefit of, to perform the functions of, or to carry out the purposes of the University including, but not limited to, promoting, encouraging, and aiding scientific research and investigation at the University. During the year, the University received funds for rent and reimbursement for computer and personnel services provided by the University from the Foundation. Also during the year, the University paid to the Foundation funds for the lease of aircraft and real property and for research programs.

The South Carolina Research Institute (SCRI) is a not-for profit research foundation which exists exclusively to facilitate the University of South Carolina's teaching, research and public service missions. It will support research programs of clear relevance to the state and nation. The research areas focus on the environment, new technologies, economic development, health sciences and social issues. SCRI receives research funding from private sources and also competes for federal funds. During the year, the University received funds from SCRI for research.

Various transactions occur between the University and these related parties. A summary of these transactions for the year ended June 30, 2002 follows:

Funds Received from Related Parties

| | |
|--|---------------------|
| Carolina Piedmont Foundation | \$ 652,071 |
| University of South Carolina Development Foundation | 235,590 |
| University of South Carolina Business Partnership Foundation | 434,550 |
| University of South Carolina Educational Foundation | 8,121,531 |
| Greater University of South Carolina Alumni Association | 1,514,366 |
| Lancaster County Educational Foundation | 497,875 |
| South Carolina Research Institute (SCRI) | <u>18,822,025</u> |
| | <u>\$30,278,008</u> |

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

The majority of SCRI revenues are recorded by the University as federal grants and contracts revenues and the majority of revenues from the other related parties are recorded as private gifts revenue. Federal grants and contracts receivables include \$8,692,622 due from SCRI at June 30, 2002.

Funds Paid to Related Parties

| | |
|---|--------------------|
| University of South Carolina Development Foundation | \$2,186,149 |
| University of South Carolina Educational Foundation | 157,494 |
| Carolina Piedmont Foundation | 75,795 |
| Lancaster County Educational Foundation | 500 |
| | <u>\$2,419,938</u> |

The University paid to the University of South Carolina Development Foundation \$9,163,555 in prior fiscal years and \$3,272,805 in the current fiscal year for the purchase of land.

Another related party of the University is the South Carolina Universities Research and Education Foundation (SCUREF) which was incorporated in November 1988 under the laws of the State of South Carolina. Its purpose is to operate as a support organization primarily to provide such assistance as may be requested by Clemson University, the Medical University of South Carolina, South Carolina State University, and/or the University of South Carolina (collectively referred to as the "member universities") in their separate and joint efforts to perform research. During fiscal year 2002, the University received \$1,446,817 from SCUREF for research. The majority of SCUREF revenues are recorded by the University as federal grants and contracts revenue. The University recorded \$641,360 due from SCUREF at June 30, 2002, as federal grants and contracts receivable.

Note 13 – Risk Management

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for all of those risks except business interruption insurance coverage and directors and officers personal liability for fiduciary matters. The University sees the only reasonable application of business interruption insurance to be in university housing. Further, the University believes that the risk of a fiduciary claim against directors and officers is low in the public arena. Management believes coverages for all other risks of loss are sufficient to preclude any significant uninsured losses for the covered risks. Claims have been settled within the limits of the coverages in each of the past three years.

The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits. State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Students are insured through a student apprentice plan through the State Accident Fund. The students who are typically engaged in distributive education programs are insured through the above program.

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss,

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

and pays claims incurred for covered losses related to the following University assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles, aircraft, and watercraft (inland marine);
4. Torts;
5. Natural disasters; and
6. Medical malpractice claims against covered hospitals, employees, third- and fourth-year medical students, and student health practitioners at student health services.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF purchases insurance for aircraft and ocean marine coverage. The IRF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in IRF.

The University also purchases a portion of its medical malpractice insurance coverage for healthcare providers through the State's insurance enterprise, the Medical Malpractice Patients' Compensation Fund.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft, misappropriation and for destruction up to \$500,000. In management's opinion, claims losses in excess of insurance coverage, if any, are unlikely and, if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore, no loss accrual has been recorded for underinsured and uninsured losses.

Note 14—Accounting Changes And Prior Period Adjustments

All state agencies and institutions were required to adopt a capitalization limit of \$5,000 for movable personal property (including library materials) and \$100,000 for depreciable land improvements, buildings and improvements, and intangible assets, as of July 1, 2001. As a result of the change in asset capitalization policy, the University removed capitalized assets on hand at July 1, 2001, which did not meet the new capitalization levels.

As a result of the adoption of GASB Statements No. 34 and 35, as discussed in Note 1, the University was also required to make certain changes in accounting principles, specifically (1) adoption of depreciation on capital assets, (2) recording of certain receivables and advance payments as deferred revenue (3) recording federal student loan liability (4) change in recognition of State capital improvement bonds and (5) elimination of the recognition and accounting for allowance for doubtful accounts for federal student loan programs receivables.

The University has restated its beginning net assets as of July 1, 2001, for the above accounting changes which are disclosed in the following schedule.

| | |
|---|-----------------------|
| Net Assets, July 1, 2001, as previously reported | \$ 1,027,025,539 |
| Restatement adjustments: | |
| Change in capitalization levels | (100,248,542) |
| Accumulated depreciation of capital assets | (313,823,222) |
| Receivables and advance payments as deferred revenues | (8,932,845) |
| Capital improvement bond proceeds revenue | (51,901,451) |
| Federal student loan liability | (18,022,824) |
| Federal student loan allowance for doubtful accounts | 919,374 |
| Net Assets, July 1, 2001, as restated | \$ 535,016,029 |

UNIVERSITY OF SOUTH CAROLINA – Notes to the Financial Statements – June 30, 2002

Note 15—Operating Expenses By Function

Operating expenses by functional classification for the year ended June 30, 2002 are summarized as follows:

| | Compensation and Benefits | Services and Supplies | Utilities | Scholarships and Fellowships | Depreciation | Total |
|------------------------------------|---------------------------------|-----------------------------|----------------------|------------------------------------|----------------------|-----------------------|
| Instruction | \$ 189,401,211 | \$ 18,269,629 | \$ 2,203 | \$ 202,935 | \$ — | \$ 207,875,978 |
| Research | 55,477,885 | 24,497,748 | 1,747 | 391,948 | — | 80,369,328 |
| Public service | 29,773,682 | 12,157,995 | 6,087 | 912,725 | — | 42,850,489 |
| Academic support | 34,119,638 | 19,313,354 | — | 36,860 | — | 53,469,852 |
| Student services | 16,220,410 | 8,046,548 | — | 47,075 | — | 24,314,033 |
| Institutional support | 36,914,895 | (2,292,895) | — | 21,320 | — | 34,643,320 |
| Operation and maintenance of plant | 19,828,182 | 11,428,437 | 12,159,779 | 6,870 | — | 43,423,268 |
| Auxiliary Enterprises | 23,127,415 | 32,677,021 | 3,412,388 | 2,607,029 | — | 61,823,853 |
| Scholarships and fellowships | 1,669,822 | 12,216 | — | 29,116,224 | — | 30,798,262 |
| Component Unit | 22,330,775 | 11,434,140 | — | — | 870,926 | 34,635,841 |
| Depreciation | — | — | — | — | 27,490,806 | 27,490,806 |
| Total Operating Expenses | <u>\$ 428,863,915</u> | <u>\$ 135,544,193</u> | <u>\$ 15,582,204</u> | <u>\$ 33,342,986</u> | <u>\$ 28,361,732</u> | <u>\$ 641,695,030</u> |

UNIVERSITY OF SOUTH CAROLINA – Supplemental Schedules – June 30, 2002

The following supplemental information is provided at the request of the State of South Carolina Office of Comptroller General.

Non-Capital Appropriations

Current year's appropriations:

| | |
|---|-----------------------|
| Original appropriations per Annual Appropriations Act | \$ 232,463,860 |
| Less mid-year reductions | (15,326,421) |
| Supplemental Appropriation (Proviso 72.110) | 1,000,000 |
| Budget and Control Board Allocations | 6,295,158 |
| From Commission on Higher Education | |
| Performance Funding | 838,889 |
| Academic Endowment Incentive | 1,164,221 |
| Transfer from Department of Revenue - EIA | 669,399 |
| Transfer from Department of Health and Environmental Control | 200,000 |
| Total non-capital appropriations recorded as current year revenue | <u>\$ 227,305,106</u> |

Capital Appropriations

Current year's appropriations:

| | |
|---|---------------------|
| Capital Improvement Bond Acts (CIB) | \$ 12,213,280 |
| Less: Prior year's CIB Receivable | (3,862,807) |
| Plus: Current year's CIB Receivable | 495,876 |
| Total capital appropriations recorded as current year revenue | <u>\$ 8,846,349</u> |

Information for Statement of Activities

| | <u>University</u> | <u>Trust</u> | <u>Total</u> |
|--|-----------------------|----------------------|-----------------------|
| Charges for services | \$ 221,833,619 | \$ 21,529,690 | \$ 243,363,309 |
| Operating grants and contributions | 187,690,703 | 11,797,213 | 199,487,916 |
| Capital grants and contributions | 20,265,793 | (125,212) | 20,140,581 |
| Less expenses | (613,383,813) | (35,028,112) | (648,411,925) |
| Net program revenue (expense) | <u>(183,593,698)</u> | <u>(1,826,421)</u> | <u>(185,420,119)</u> |
| Transfers: | | | |
| State appropriation | 227,305,106 | - | 227,305,106 |
| Less transfers out to state agencies/funds | (821,788) | - | (821,788) |
| Total general revenue and transfers | <u>226,483,318</u> | <u>-</u> | <u>226,483,318</u> |
| Change in net assets | 42,889,620 | (1,826,421) | 41,063,199 |
| Net assets-beginning | 535,016,029 | 15,576,445 | 550,592,474 |
| Net assets-ending | <u>\$ 577,905,649</u> | <u>\$ 13,750,024</u> | <u>\$ 591,655,673</u> |